



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER BUSINESS LINE

May 2, 2005

In reply refer to: P-6

Dear Customers, Constituents, Tribes and Other Regional Stakeholders:

The Bonneville Power Administration (BPA) is preparing to conclude the Power Function Review (PFR), which began in January 2005. The purpose of this letter is to provide BPA's draft conclusions about the costs to be included in its FY 2007-2009 power rate case initial proposal, based on the PFR process to date. BPA will be taking comments on this draft closeout report through the remainder of the PFR comment period, which closes May 20, 2005.

Background

As BPA prepares to set power rates for FY 2007-2009, a crucial task is to ensure that the costs used for rate-setting are as low as practical to carry out BPA's mission. The goal of the PFR was to allow interested parties an opportunity to examine, understand and provide input on costs for the power rate case initial proposal, which will be issued in fall 2005.

Beginning in January 2005, 12 technical workshops and management-level discussions were held on power function costs. BPA also held regional public comment meetings during April in Portland, Seattle, Idaho Falls, Missoula and Spokane. At these meetings and workshops BPA, Energy Northwest, the Corps of Engineers, and the Bureau of Reclamation provided information on proposed spending levels and attendees were able to ask questions and make suggestions for changes in those levels.

Risk mitigation packages and tools were also discussed in the PFR, as well as debt management issues, though final decisions on these issues will not be made until the FY 2007-2009 rate case. Workshops for the rate case have begun and will continue throughout the summer. For information on upcoming rate case workshops, please visit the Web site at www.bpa.gov/power/rates.

Power Function Review Outcomes

Significant reductions and increases in FY 2007-2009 power function costs have been identified through the PFR process. The reductions that BPA proposes to make based on the PFR process, detailed in the enclosure, total an average of \$97 million per year for the 3-year period. These reductions are offset by proposed increases totaling \$17 million per year for the 3-year period. Reductions net of increases total \$80 million per year, for a total of \$240 million for the rate period. This translates to a reduction of very roughly 1 mill/kWh in the PF rate, relative to the PFR base costs. BPA is now seeking input on whether these are the appropriate cost reductions and increases to make for purposes of BPA's FY 2007-2009 rate proposal.

I would like to express appreciation to all participants in this process. The questions, comments, and recommendations we received have made a difference in our draft closeout report. It is important to us that our customers, constituents, Tribes and other stakeholders understand BPA's costs and the drivers behind them, and are reasonably confident that the costs used to set rates are achievable while still accomplishing BPA's mission. It is also important that interested parties know they are able to be heard and influence decision-making.

But we are not done yet. It is critical that we receive your comments by the close of the comment period, Friday, May 20. Comments can be sent via mail to Bonneville Power Administration, P.O. Box 14428, Portland OR 97293-4428, sent via email to comment@bpa.gov, submitted online at <http://www.bpa.gov/comment> or faxed to (503) 230-3285. A technical workshop on the closeout report is scheduled for May 9 and a final management-level discussion with the Administrator is scheduled for May 16. Additional information on these meetings is available on the PFR Web site at www.bpa.gov/power/review.

In the meantime if you have any additional questions regarding the PFR, please contact your Power Business Line Customer Account Executive, Tribal Account Executive, Constituent Account Executive, the PFR project manager, Michelle Manary at (503) 230-5858, or myself at (503) 230-5399.

Sincerely,

/s/ Paul E. Norman

Paul E. Norman
Senior Vice President
Power Business Line

Enclosure:

[Draft Closeout Report: BPA's Proposed Changes to PFR Base Costs](#)